

**DURANT MUNICIPAL ELECTRIC PLANT**

**Durant, Iowa**

**Financial Statements and  
Supplemental Data**

**December 31, 2009**

**DURANT MUNICIPAL ELECTRIC PLANT  
Durant, Iowa**

**C O N T E N T S**

**OFFICIALS**

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**DURANT MUNICIPAL ELECTRIC PLANT**  
**Durant, Iowa**  
**Officials**

**BOARD OF TRUSTEES**

<b>NAME</b>	<b>TITLE</b>	<b>TERM EXPIRES</b>
Harlen Bland	Chairman	December 31, 2013
Brad Mumm	Board Member	December 31, 2009
Dave Krohn	Board Member	December 31, 2011

**OFFICIALS**

<b>NAME</b>	<b>TITLE</b>
Joel Meincke	Superintendent
Tamara R. Allison	Office Manager

Randy L. Linn, CPA  
David A. Schebler, CPA  
Randall B. Sovey, CPA

# **HUCKFELDT & SMITH**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL LIABILITY COMPANY

## **INDEPENDENT AUDITOR'S REPORT**

Durant Municipal Electric Plant  
Durant, Iowa

We have audited the accompanying statement of net assets of the Durant Municipal Electric Plant as of December 31, 2009, and the related statements of revenue, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Durant Municipal Electric Plant's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

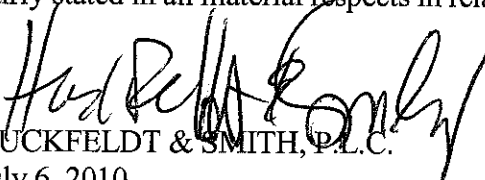
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Durant Municipal Electric Plant, as of December 31, 2009, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 6, 2010, on our consideration of Durant Municipal Electric Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Durant Municipal Electric Plant  
Page Two

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Durant Municipal Electric Plant's basic financial statements. Schedules A-1 through B-1 listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
HUCKFELDT & SMITH, P.L.C.  
July 6, 2010

**DURANT MUNICIPAL ELECTRIC PLANT  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Durant Municipal Electric Plant provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2009. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

This Discussion and Analysis is intended to serve as an introduction to the basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- ❑ The Utility's operating revenues increased 1%, or \$15,000 from 2008 to 2009.
- ❑ The Utility's non-payroll generating costs were 28%, or \$217,000, higher in 2009 than in 2008.
- ❑ The Utility's payroll costs were 7% or \$34,000 lower in 2009 than in 2008.
- ❑ The Utility's net assets increased 1%, or \$35,000 from 2008 to 2009.
- ❑ The Utility's operating expenses decreased 4%, or \$18,000 from 2008 to 2009.

### **USING THIS ANNUAL REPORT**

The Durant Municipal Electric Plant is an Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities

The Statement of Net Assets presents information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Assets is the basic statement of activities for enterprise funds. This statement presents information on the Utility's operating revenues and expenses, non-operating revenues and expenses and whether the Utility's financial position has improved or deteriorated as a result of the year's activities.

## **DURANT MUNICIPAL ELECTRIC PLANT**

### **Management's Discussion and Analysis**

**December 31, 2009**

The Statement of Cash Flows presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Supplementary Information provides detailed information about the Utility's financial position.

### **FINANCIAL ANALYSIS OF THE UTILITY**

As noted earlier, net assets may serve over time as a useful indicator of the Utility's financial position. The Utility's net assets at December 31, 2009 totaled \$2,744,056. This compares to \$2,709,059 at December 31, 2008. A summary of the Utility's net assets is presented below.

Net Assets		
	December 31,	
	2009	2008
Current Assets	\$ 928,446	\$ 822,124
Restricted Cash and Investments	724,055	720,909
Capital Assets at cost, less accumulated depreciation	1,472,728	1,632,931
Total Assets	3,125,229	3,175,964
Current Liabilities	253,257	241,905
Noncurrent Liabilities	127,916	225,000
Total Liabilities	381,173	466,905
Net Assets:		
Invested in capital assets, net of related debt	1,247,728	1,307,931
Unrestricted	1,496,328	1,401,128
Total Net Assets	\$ 2,744,056	\$ 2,709,059

The net assets invested in capital assets e.g., land, buildings and equipment, less the related debt portion of net assets which are resources allocated to capital assets, is 45% of net assets. The remaining net assets, 55%, are the unrestricted net assets that can be used to meet the Utility's obligations as they come due.



## DURANT MUNICIPAL ELECTRIC PLANT

### Management's Discussion and Analysis

December 31, 2009

Changes in Net Assets		
	Year Ended December 31	
	2009	2008
Operating Income	\$ 1,680,061	\$ 1,664,540
Operating Expenses	(1,512,559)	(1,307,975)
Operating Profit	167,502	356,565
Other Income	54,138	77,047
Other Expenses	(186,643)	(189,272)
Net Change in Assets	\$ 34,997	\$ 244,340

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the fiscal year.

The Statement of Cash Flows presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes electric generation & distribution fees reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes lease payments and the purchase of capital assets. Cash used by investing activities includes purchase of certificates of deposits and interest income.

### CAPITAL ASSETS

The Utility's capital assets include land, buildings, vehicles, machinery and equipment, tools and distribution system. Capital assets totaled \$1,427,728 (net of accumulated depreciation) at December 31, 2009. Additional information of the Electric Utility's assets can be found in Schedule A-3 in this report.

**DURANT MUNICIPAL ELECTRIC PLANT**  
Management's Discussion and Analysis  
December 31, 2009

**LONG TERM DEBT**

At December 31, 2009, the Utility had \$225,000 in debt outstanding, a decrease of \$100,000 from 2008. The table below summarizes outstanding debt by type:

	December 31,	
	2009	2008
Bonds Payable - See Note 9	\$ 225,000	\$ 325,000

**ECONOMIC FACTORS**

The Durant Municipal Electric Plant continued to improve its financial position during the current year. However, the current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- ❑ Facilities require constant maintenance and upkeep.
- ❑ Technology continues to expand and current technology becomes outdated presenting an ongoing challenge to maintain up to date technology at a reasonable cost.

The Utility anticipates the current year will be much like the last and will maintain a close watch over resources to maintain the Utility's ability to react to unknown issues.

**CONTACTING THE UTILITY'S MANAGEMENT**

This financial report is designed to provide our constituents with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional information, contact Durant Municipal Electric Plant, 601 4th Street, Durant, Iowa 52747

**DURANT MUNICIPAL ELECTRIC PLANT**  
**FINANCIAL STATEMENTS**

EXHIBIT A**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa  
Statement of Net Assets  
December 31, 2009

	<u>2009</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash on Hand	\$ 200
Cash in Bank - General Fund	472,245
Money Market	126,372
Deposit with Iowa Public Agency Investment Trust	43
Customer Accounts Receivable	134,620
Accrued Interest Receivable	4,769
Material & Supplies Inventory - Note 1	170,388
Fuel Inventory - Note 1	19,809
Total	<u>928,446</u>
<b>INVESTMENTS AND FUND ACCOUNTS:</b>	
Certificates of Deposit-Schedule A-2 Note 5	605,000
Meter Deposit Fund - Investments - Note 5	6,105
Meter Deposit Fund - Checking	20,028
Money Market-Bond Sinking Fund	92,922
Total	<u>724,055</u>
<b>ELECTRIC PLANT: - Note 1</b>	
Intangible Plant	175,621
Production Plant	1,528,607
Transmission Plant	151,967
Distribution Plant	595,189
General Plant	427,783
Radiator	135,829
Substation	1,003,606
Total	<u>4,018,602</u>
Less: Accumulated Provision for Depreciation	<u>(2,545,874)</u>
Total - Schedule A-3	<u>1,472,728</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 3,125,229</u></u>

See Notes to Financial Statements.

**EXHIBIT A****DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa  
Statement of Net Assets  
December 31, 2009

**LIABILITIES AND NET ASSETS**

	<u>2009</u>
<b>CURRENT LIABILITIES:</b>	
Accounts Payable	\$ 80,561
Sales and Use Tax Payable	5,153
Customer Meter Deposits	23,740
Accrued Interest on Meter Deposits	2,682
Accrued Payroll	4,185
Accrued Vacation and Sick Pay - Note 8	23,178
Prepaid Rent	560
Accrued Interest on Bonds	3,198
Current Portion of Long Term Debt	110,000
Total	<u>253,257</u>
<b>NON-CURRENT LIABILITIES:</b>	
Other Post Employment Benefits	12,916
Long Term Debt - Net of Current Portion Above	115,000
	<u>127,916</u>
<b>TOTAL LIABILITIES</b>	<u>381,173</u>
<b>NET ASSETS:</b>	
Invested in Capital Assets, Net of Related Debt	1,247,728
Unrestricted	1,496,328
<b>TOTAL NET ASSETS</b>	<u>2,744,056</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3,125,229</u>

See Notes to Financial Statements.

**EXHIBIT B****DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Statement of Revenue, Expenses and Changes in Net Assets with Comparison to Budget  
For the Year Ended December 31, 2009

	Actual 2009	Budget 2009
<b>OPERATING INCOME:</b>		
Residential Sales	\$ 791,926	\$ 837,000
Commercial and Industrial	141,963	153,200
Power	689,894	614,000
Municipal	54,410	59,600
Security Lite	1,868	2,000
Total	<u>1,680,061</u>	<u>1,665,800</u>
<b>OPERATING EXPENSES:</b>		
Production Expense	1,090,105	961,900
Distribution Expense	196,525	214,600
Customer Accounts Expense	112,416	105,800
Administrative Expense	113,513	112,420
Total	<u>1,512,559</u>	<u>1,394,720</u>
<b>OPERATING PROFIT</b>	<u>167,502</u>	<u>271,080</u>
<b>OTHER INCOME:</b>		
Interest from Investments	18,275	19,400
Penalties	1,590	3,100
Patronage Dividends	17,845	18,200
Miscellaneous	11,893	77,900
Pole Rental	4,535	4,200
Total	<u>54,138</u>	<u>122,800</u>
<b>OTHER DEDUCTIONS:</b>		
Depreciation	167,364	224,600
Interest Expense	17,394	118,378
Bad Debts	815	200
Miscellaneous	1,070	50,702
Total	<u>186,643</u>	<u>393,880</u>
<b>CHANGE IN NET ASSETS</b>	34,997	<u>0</u>
<b>NET ASSETS DECEMBER 31, 2008</b>	<u>2,709,059</u>	
<b>NET ASSETS December 31, 2009</b>	<u>\$ 2,744,056</u>	

See Notes to Financial Statements.

EXHIBIT C**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Statement of Cash Flows

For the Year Ended December 31, 2009

	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash Received from Customers for Electrical Service	\$ 1,733,506
Cash Received for Other Charges and Misc Income	34,273
Cash Paid to Suppliers for Generation and Distribution Services	(1,059,691)
Cash Paid to Employees for Services	(317,725)
Cash Paid to Suppliers for Administrative and General Services	(119,220)
Cash Paid for Sales Taxes	<u>(48,679)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>222,464</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition of Capital Assets	(7,248)
Proceeds from the Sale of Capital Assets	388
Interest Disbursed on Bonds	<u>(18,378)</u>
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(25,626)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest Collected	19,078
Principal Payment on Bonds	(100,000)
Purchase of Investments	<u>(2,207)</u>
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(83,129)</u>
<b>NET INCREASE IN CASH</b>	113,709
<b>CASH &amp; EQUIVALENTS BALANCE AT BEGINNING OF YEAR</b>	<u>505,179</u>
<b>CASH &amp; EQUIVALENTS BALANCE AT END OF YEAR</b>	<u><u>\$ 618,888</u></u>
<b><u>Reconciliation of Net Change in Net Assets to Cash Provided by Operating Activities</u></b>	
Net Operating Profit	\$ 167,502
<b>Adjustments to Reconcile Net Change in Net Assets to Net Cash</b>	
<b>Provided by Operating Activities</b>	
Patronage Dividends	17,845
Other Income	18,018
Other Deductions	(1,070)
(Increase) Decrease in Non-Cash Current Assets	(4,099)
Increase (Decrease) in Current Liabilities	24,268
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 222,464</u></u>

See Notes to Financial Statements.

## **DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Notes to Financial Statements

### **Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### Measurement Focus and Basis of Accounting:

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing business. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with standards set forth by The Governmental Accounting Standards Board. Revenues are recognized when they are earned and expenses are recognized or recorded when they are incurred.

#### Reporting Entity:

For financial reporting purposes, Durant Municipal Electric Plant has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Municipal Electric Plant has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship are such that exclusion would cause the financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Durant Municipal Electric Plant. The Durant Municipal Electric Plant has no component units which meet the Governmental Accounting Standards Board criteria.



## **DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Notes to Financial Statements

### **Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

#### Fund Accounting:

The accounts of Durant Municipal Electric Plant are organized as an enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

#### Measurement Focus:

Enterprise funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on the balance sheet. The operating statement presents increases (revenue) and decreases (expenses) in net assets.

In reporting the financial activity of its enterprise fund, the Durant Municipal Electric Plant applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

#### Budgets and Budgetary Accounting:

In accordance with the Code of Iowa, the utility annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

#### Investments:

Investments consist of CD's and are valued at cost plus any interest earned that is added to the security. Investments are stated at cost.

## **DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Notes to Financial Statements

### **Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

#### Inventories:

Inventories are valued at the lower of cost or market using the first-in, first-out method. Inventories consist of materials and supplies to be used in production and distribution construction and maintenance as well as oil to be used for generation. Inventories are expensed or capitalized when used.

#### Fixed Assets:

Electric Plant fixed assets were established from a survey report by Fulton & Cramer, Consulting Engineers, as of September 30, 1968. The basis of valuation was "Reproduction Cost Net of Depreciation". A copy of the Consulting Engineers' report contained detailed explanations of valuation and depreciation procedures, and is on file in the office of the Electric Plant. Fixed asset additions after September 30, 1968, are recorded at historical cost.

#### Depreciation:

Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized.

#### Assets, Liabilities and Net Investments:

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents – The Durant Municipal Electric Plant considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

## **DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

### **Notes to Financial Statements**

#### **Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

Reportable capital assets are defined by the Durant Municipal Electric Plant as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Buildings and improvements	\$ 10,000
Equipment and vehicles	2,500

Capital assets of the Durant Municipal Electric Plant are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful lives (In Years)</u>
Buildings	40-50
Building improvements	20-50
Equipment and vehicles	02-20

Compensated Absences – Durant Municipal Electric Plant employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death or retirement. Durant Municipal Electric Plant's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2009.

#### **Note 2 – ORGANIZATION:**

Durant Municipal Electric Plant is organized as a municipal utility. It is operated under the control of a Board of Trustees, who are appointed by the Mayor and approved by the City Council. The Board has three members who serve six-year terms on a two year staggered basis.

## **DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

### **Notes to Financial Statements**

#### **Note 3 - CASH FLOWS DISCLOSURE:**

Included in the Financial Statements for 2009 is \$19,078 of interest received.

The Utility disbursed \$18,378 in interest during 2009

Cash and Cash Equivalents consist of Cash on Hand; Cash in Bank - General Fund, Money Market, and Meter Deposit Fund-Checking.

Cash Balances consist of the following:

Cash on Hand	\$ 200
Cash in Bank-General Fund	472,245
Money Market	126,372
Deposit with Public Agency Trust	43
Meter Deposit Fund-Checking	20,028
	<u>\$ 618,888</u>

#### **Note 4 - CONCENTRATION OF CREDIT RISK:**

Durant Municipal Electric Plant provides commercial and residential electric services to customers in Durant, Iowa. Receivables are from customers with locations in Durant, Iowa and collection of these receivables is dependent on the performance of the local economy.

#### **Note 5 - BANK ACCOUNTS AND INVESTMENTS:**

The Durant Municipal Electric Plant's bank accounts and investments at December 31, 2009 were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Municipal Electric Plant is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint

## **DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

### **Notes to Financial Statements**

#### **Note 5 – BANK ACCOUNTS AND INVESTMENTS: (Continued)**

investment trusts; and warrants and improvement certificates of a drainage district.

The Durant Municipal Electric Plant had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3 as amended by Statement No. 40.

The Municipal Electric Plant's investments at December 31, 2009 consists of Certificates of Deposit at Liberty Trust and Savings Bank, and one Money Market account at Liberty Trust and Savings Bank as follows:

	<u>Carrying Value</u>
Meter Deposit Fund	\$ 6,105
Operating Fund	605,000
Total CD's	<u>611,105</u>
Money Market Accounts	92,922
Total	<u><u>\$ 704,027</u></u>

Book value and market value are the same.

#### **Note 6 - PENSION AND RETIREMENT BENEFITS:**

The Municipal Electric Plant is a participating employer in the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit retirement system administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.3% of their annual salary and the Utility is required to contribute 6.65%. Contribution requirements are established by State statute. The Durant Municipal Electric Plant's contribution to IPERS for the year ended December 31, 2009 was \$15,269, equal to the required contributions for the year.

## **DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

### **Notes to Financial Statements**

#### **Note 7 - RISK MANAGEMENT:**

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Utility assumes liability for any deductibles and claims in excess of coverage limits.

#### **Note 8 - COMPENSATED ABSENCES:**

Utility employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are recognized as liabilities and expensed as accrued. The approximate liability for earned compensated absences payable to employees at December 31, 2009, is as follows:

<u>TYPE OF BENEFIT</u>	<u>AMOUNT</u>
Vacation	\$ 7,476
Sick leave	15,702
TOTAL	<u>\$ 23,178</u>

This liability has been computed based on rates of pay in effect at December 31, 2009.

#### **Note 9 - LONG TERM DEBT:**

On October 11, 1996, the Utility issued \$1,200,000 in bonds dated October 1, 1996, to perform repairs and upgrades to existing facilities. The bonds were issued at 98.5% of par and have an average coupon rate of 5.4578% and are due ratably over the next 15 years.

# DURANT MUNICIPAL ELECTRIC PLANT

Durant, Iowa

## Notes to Financial Statements

### Note 9 – LONG TERM DEBT: (Continued)

Annual debt service requirements for electric revenue notes are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
12-31-10	\$ 110,000	\$ 12,828	\$ 122,828
12-31-11	115,000	6,613	121,613
TOTAL	<u>\$ 225,000</u>	<u>\$ 19,441</u>	<u>\$ 244,441</u>

The resolutions providing for the issuance of the revenue bonds include the following provisions.

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate revenue note sinking account for the purpose of making the note principal and interest payments when due.

### Note 10 – CAPITAL ASSETS:

A summary of capital assets at December 31, 2009 is as follows:

	<u>Balance Beg. of Year</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance End of Year</u>
Capital Assets Not Being Depreciated	\$ 46,040	\$ 0	\$ 0	\$ 46,040
Capital Assets Being Depreciated	3,991,912	7,248	(26,598)	3,972,562
Total Capital Assets	4,037,952	7,248	(26,598)	4,018,602
Less: Accumulated Depreciation	<u>(2,405,111)</u>	<u>(167,363)</u>	<u>26,600</u>	<u>(2,545,874)</u>
Total Capital Assets, Net	<u>\$ 1,632,841</u>	<u>\$ (160,115)</u>	<u>\$ 2</u>	<u>\$ 1,472,728</u>

## **DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Notes to Financial Statements

### **Note 11 – OTHER POST EMPLOYMENT BENEFITS (OPEB)**

The Utility operates a Single-Employer Benefit Plan which provides medical benefits for employees and their spouses. The benefits are provided through a fully insured plan. Retirees and other separated employees are allowed to stay on the plan for the remainder of the month after separation from service. After this time employees can remain on the plan by paying 100% of their premium for the time allowed by COBRA. Benefits are currently funded on a pay as you go basis.



**DURANT MUNICIPAL ELECTRIC PLANT**

**Supplemental Data  
December 31, 2009**

**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Schedule of Indebtedness

Year Ended December 31, 2009

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due &amp; Unpaid</u>
Revenue Notes: Electric	10/01/96	5.2-5.75%	\$ 1,200,000	\$ 325,000	\$ 0	\$ 100,000	\$ 225,000	\$ 18,378	\$ 3,198

**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa  
Schedule of Investments  
December 31, 2009

**SCHEDULE A-2****LIBERTY TRUST AND SAVINGS BANK:**

<b><u>Certificates of Deposit</u></b>	<b><u>Maturity Date</u></b>	<b><u>Interest Rate</u></b>	<b><u>Amount</u></b>
# 94279	06/28/10	1.79	\$ 150,000
# 94650	07/28/10	1.79	50,000
# 94651	12/28/10	1.59	100,000
# 85201	02/16/10	2.38	25,000
# 95816	10/22/10	1.74	70,000
# 93356	07/20/10	1.79	30,000
# 95254	02/11/13	2.38	100,000
# 95293	03/22/10	2.38	80,000
			<u>\$ 605,000</u>

**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

## Schedule of Electric Plant Fixed Assets

	<u>Cost</u>	<u>Accumulated Depreciation 12/31/08</u>	<u>Depreciation Expense 2009</u>	<u>Disposition 2009</u>	<u>Accumulated Depreciation 12/31/09</u>
<b>INTANGIBLE PLANT:</b>					
Organization Expense	\$ 5,000	\$ 0	0	0	\$ 0
Construction Cost	170,621	170,621	0	0	170,621
Total	<u>175,621</u>	<u>170,621</u>	<u>0</u>	<u>0</u>	<u>170,621</u>
<b>PRODUCTION PLANT:</b>					
Land and Land Rights	32,050	0	0	0	0
Power House & Bldg Improvements	232,132	188,393	5,265	0	193,658
Fuel & Lube Oil System	19,603	19,603	0	0	19,603
Accessory Electric Equipment	61,500	61,500	0	0	61,500
Miscellaneous Plant Equipment	9,434	10,482	0	1,048	9,434
Generators & Plant Equipment	1,173,888	377,257	57,082	0	434,339
Total	<u>1,528,607</u>	<u>657,235</u>	<u>62,347</u>	<u>1,048</u>	<u>718,534</u>
<b>TRANSMISSION PLANT:</b>					
Clearing Land and Right of Way	500	500	0	0	500
Station Equipment (Transformer)	146,021	146,021	0	0	146,021
Poles and Fixtures	2,349	2,349	0	0	2,349
Overhead Conductors and Devices	3,097	3,097	0	0	3,097
Total	<u>151,967</u>	<u>151,967</u>	<u>0</u>	<u>0</u>	<u>151,967</u>
<b>DISTRIBUTION PLANT:</b>					
Station Equipment (Capacitors and Battery)	71,665	68,566	1,546	2,249	67,863
Poles, Towers and Fixtures	131,229	55,112	3,383	3,286	55,209
Overhead Conductors and Devices	107,040	59,478	2,550	2,910	59,118
Underground Conduit and Conductors	80,622	56,447	1,209	5,524	52,132
Line Transformers	133,558	74,840	9,918	6,240	78,518
Services	15,434	15,875	142	806	15,211
Meters	33,534	30,880	820	1,323	30,377
Street Lighting and Signals	9,703	10,095	93	620	9,568
Furnace	12,404	8,380	0	0	8,380
Total	<u>595,189</u>	<u>379,673</u>	<u>19,661</u>	<u>22,958</u>	<u>376,376</u>

**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

## Schedule of Electric Plant Fixed Assets

December 31, 2009

	<u>Cost</u>	<u>Accumulated Depreciation 12/31/08</u>	<u>Depreciation Expense 2009</u>	<u>Disposition 2009</u>	<u>Accumulated Depreciation 12/31/09</u>
<b>GENERAL PLANT:</b>					
Office Furniture and Fixtures	\$ 71,835	\$ 67,191	\$ 3,362	\$ 0	\$ 70,553
Transportation Equipment	304,376	163,321	36,631	0	199,952
Stores Equipment	7,047	3,066	1,315	2,594	1,787
Shop Equipment	23,371	22,335	345	0	22,680
Laboratory Equipment	3,875	3,875	0	0	3,875
Tools & Work Equipment	17,279	17,279	0	0	17,279
Total	<u>427,783</u>	<u>277,067</u>	<u>41,653</u>	<u>2,594</u>	<u>316,126</u>
<b>RADIATOR:</b>					
Radiator	117,500	105,807	3,525	0	109,332
Studies	18,329	16,464	550	0	17,014
Total	<u>135,829</u>	<u>122,271</u>	<u>4,075</u>	<u>0</u>	<u>126,346</u>
<b>SUBSTATION:</b>					
Land & Land Clearing	8,990	0	0	0	0
Engineering & Legal	28,822	28,822	0	0	28,822
Aerial Lines	5,111	5,111	0	0	5,111
Outdoor Substation	727,541	471,482	32,528	0	504,010
Reclosure	120,482	28,202	7,099	0	35,301
Transformer	103,016	103,016	0	0	103,016
Feasibility Studies	9,644	9,644	0	0	9,644
Total	<u>1,003,606</u>	<u>646,277</u>	<u>39,627</u>	<u>0</u>	<u>685,904</u>
<b>TOTALS</b>	<u>\$ 4,018,602</u>	<u>\$ 2,405,111</u>	<u>\$ 167,363</u>	<u>\$ 26,600</u>	<u>\$ 2,545,874</u>

**DURANT MUNICIPAL ELECTRIC PLANT**  
Durant, Iowa  
Schedule of Cash Balances  
December 31, 2009

SCHEDULE A-4

Cash on Hand	\$	200
Cash in Bank - General Fund		472,245
Money Market		126,372
Meter Deposit - Checking		<u>20,028</u>
Total	\$	<u><u>618,845</u></u>

## SCHEDULE A-5

**DURANT MUNICIPAL ELECTRIC PLANT**

## Schedule of Cash Balance Composition

December 31, 2009

	<u>Demand Deposits</u>	<u>Time Deposits &amp; Investments</u>	<u>Total</u>	<u>Maximum Authorized Deposit</u>
<b><u>Depository</u></b>				
<b><u>Liberty Trust &amp; Savings</u></b>				
<b><u>Durant, Iowa:</u></b>				
General	\$ 598,617	\$ 605,000	\$ 1,203,617	
Capital Improvements	92,922	0	92,922	
Customer Deposits	<u>20,028</u>	<u>6,105</u>	<u>26,133</u>	
Total	<u>\$ 711,567</u>	<u>\$ 611,105</u>	<u>\$ 1,322,672</u>	<u>\$ 2,000,000</u>

SCHEDULE A-6

**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Schedule of Bond Maturities

December 31, 2009

Year Ended  
December 31

Issued 10-01-96

Interest Rate

Amount

2010

5.65

\$ 110,000

2011

5.75

115,000

**TOTAL**

\$ 225,000



SCHEDULE B-1**DURANT MUNICIPAL ELECTRIC PLANT**

Durant, Iowa

Detail Schedule of Operating Expenses and Comparison to Budget  
For the Year Ended December 31, 2009

	<u>2009</u>	<u>Budget</u>
<b>PRODUCTION EXPENSES:</b>		
Labor	\$ 87,780	\$ 94,100
Fuel	4,487	32,500
Lubrication	0	600
Maintenance	19,762	31,300
Purchased Power	961,446	784,500
Insurance	12,094	13,100
Tools	1,738	3,300
Safety Expenses	2,798	2,500
Total	<u>1,090,105</u>	<u>961,900</u>
<b>DISTRIBUTION EXPENSES:</b>		
Supervision and Labor	112,377	135,800
Stock	26,585	37,400
Maintenance	38,925	15,100
Truck and Transportation	6,544	13,200
Insurance	12,094	13,100
Total	<u>196,525</u>	<u>214,600</u>
<b>CUSTOMER ACCOUNTS EXPENSES:</b>		
Meter Reading Labor	12,055	15,600
Office Salaries	62,902	59,600
Miscellaneous Supplies	14,755	12,900
Energy Efficient	15,935	9,000
Insurance	6,047	6,600
Metering	722	2,100
Total	<u>112,416</u>	<u>105,800</u>
<b>ADMINISTRATIVE EXPENSES:</b>		
Salaries and Wages	53,820	48,400
Trustee Fees	940	720
Community Service	11,453	200
Professional Services	27,233	25,400
Dues, Subscriptions and Meetings	5,260	6,400
Telephone	8,499	6,100
Engineering	3,624	23,200
Publications	1,441	900
Miscellaneous	1,243	1,100
Total	<u>113,513</u>	<u>112,420</u>
<b>TOTAL OPERATING EXPENSES</b>	<u><u>\$ 1,512,559</u></u>	<u><u>\$ 1,394,720</u></u>

**Independent Auditor's Report on  
Internal Control over Financial Reporting and on  
Compliance and Other Matters  
Based on an Audit of Financial Statements  
In Accordance With  
Government Auditing Standards**

Randy L. Linn, CPA  
David A. Schebler, CPA  
Randall B. Sovey, CPA

# **HUCKFELDT & SMITH**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL LIABILITY COMPANY

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
Durant Municipal Electric Plant

We have audited the financial statements of Durant Municipal Electric Plant, Durant, Iowa, as of and for the year ended December 31, 2009, and have issued our report thereon dated July 6, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Durant Municipal Electric Plant's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Durant Municipal Electric Plant's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Durant Municipal Electric Plant's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and another deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Durant Municipal Electric Plant's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Durant Municipal Electric Plant's financial statements that is more than inconsequential will not be prevented or detected by

Durant Municipal Electric Plant's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Durant Municipal Electric Plant's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we do not believe the item in Part II is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Durant Municipal Electric Plant's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about Durant Municipal Electric Plant's operations for the year ended December 31, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Durant Municipal Electric Plant. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Durant Municipal Electric Plant's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Durant Municipal Electric

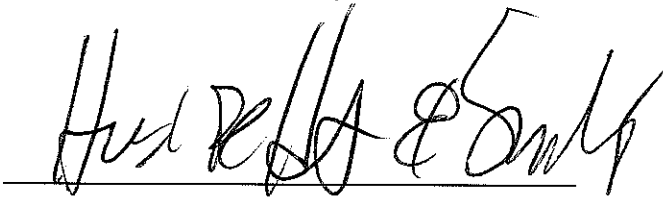
Durant Municipal Electric Plant  
Page Three

Plant's responses, we did not audit Durant Municipal Electric Plant's responses and, accordingly we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Durant and other parties to whom the Durant Municipal Electric Plant may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Durant Municipal Electric Plant during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

HUCKFELDT & SMITH, P.L.C.

A handwritten signature in black ink, appearing to read "Huckfeldt & Smith", is written over a horizontal line.

July 6, 2010

**Durant Municipal Electric Plant  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2009**

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITION:**

- A Segregation of Duties: - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits, the posting of the cash receipts to the cash receipts journal, accounts payable, payroll and disbursements processing and postings are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Durant Municipal Electric Plant should continually review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – Segregation of duties involving cash is partially unattainable due to the economic conditions under which the Municipal Electric Plant operates. However, we will continue to investigate available alternatives and implement the ones which are feasible for the Municipal Electric Plant. This is an area of ongoing concern for management and is continually monitored.

Conclusion – Response accepted.

**Durant Municipal Electric Plant  
Schedule of Findings and Questioned Costs  
Year ended December 31, 2009**

**Part III: Other Findings Related to Statutory Requirements and Other Matters:**

1. Certified Budget – For the year ended December 31, 2009 some of the line item expenditures exceeded budgeted amounts. However, total expenditures did not exceed the budgeted figure.
2. Entertainment Expense – We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense – No expenditures of Municipal Electric Plant money for travel expenses of spouses of Municipal Electric Plant officials and/or employees were noted. No travel advances to officials or employees were noted.
4. Related Party Business Transactions – No expenditures or money to any was noted.
5. Bond Coverage – Surety bond coverage of Municipal Electric Plant officials and employees is in accordance with statutory provisions. However, we recommend that the amount of coverage be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes – We noted no transactions requiring Board approval which had not been approved by the Board.
7. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.